

V



5
AC-11
P3
12.1904
1117

PREFERENTIAL TRADE BETWEEN
BRITAIN AND CANADA

BY

ADAM SHORTT

REPRINTED FROM
PAPERS AND PROCEEDINGS OF THE SEVENTEENTH ANNUAL MEETING
AMERICAN ECONOMIC ASSOCIATION
DECEMBER, 1904

PREFERENTIAL TRADE BETWEEN BRITAIN
AND CANADA

ADAM SHORTT

PREFERENTIAL TRADE BETWEEN BRITAIN AND CANADA

The question of preferential trade as between Britain and her colonies is one into which theory enters merely as one of the factors in a concrete situation. As every close student of practical affairs is aware, in concrete situations, doubtful or false theories often have much more weight and are far more real than true ones, in the sense at least of actually influencing actions and producing results. In dealing with concrete national policies we have, therefore, to ask such leading questions as the following: What do these people imagine they are doing? What are they actually doing? What can they be persuaded to attempt? And, if astray, how long will it be before they discover their mistake? And, very often, what kind of new mistake will be accepted as a remedy for the old?

Now, at first sight, it might seem strange that Canada should have any difficulty about preferential trade with Britain, when she apparently originated the scheme, first put it into practice, and still substantially stands by it, even if in modified form and with growing opposition on the part of special interests. In order, therefore, to show whence arose the present situation and what are its leading characteristics, it will be necessary to summarize a little tariff history in connection with the advent to power of the Liberal Party in Canada and its policy in dealing with the tariff.

The Liberal Party during its last period in opposition, from 1878 to 1896, had steadily opposed the principle



National Library
of Canada

Bibliothèque nationale
du Canada

of a high protective tariff. In the interests of the public at large, but without prejudice to the manufacturers, they advocated such freedom of trade as was consistent with a tariff for revenue only. They particularly favoured the promotion of trade with Britain and the United States. Latterly they took comfort and encouragement from Mr. Cleveland's campaigns for a lower tariff. As the people of Canada were beginning to discover that the prosperity promised by the National Policy was rather slow in arriving, the Liberal policy was rapidly making converts. Even Conservative leaders talked tariff reform, though the majority still adhered to the principle which had brought them into power and had for some time sustained them. The principle of reciprocal trade, on the basis of treating other countries as they treated Canada, had been frequently discussed, but came more definitely into view during the last years of Conservative rule. The proposition was given special point under the influence of the Dingley tariff, which greatly cooled the ardor of Canadians for better trade relations with the United States, and turned attention towards the value of the British market for Canadian goods and the possibility of a more favourable treatment of British imports in return. At the same time the Liberal Party, more particularly under the leadership of Mr.—afterwards Sir Wilfrid—Laurier, recognized the impossibility of altogether abandoning the principle of protection with reference to those industries which had been brought into existence through the National Policy, but which had never been able to outgrow their infancy. Still, the party continued to advocate a considerable readjustment and modification of the protective principle,

in the interests of consumers and of industries natural to the country.

Under such pledges, the Liberal Party came into power in 1896. Once in office, their views on tariff reform were still further modified. This was in some measure due to the representations of the manufacturers before a tariff commission which the new government appointed. Resentment at the anti-Canadian clauses in the Dingley tariff had been steadily growing, while the liberality with which Britain had treated Canadian imports was, by contrast, being more vividly realized. The Liberal Government, therefore, on succeeding to office, found itself between two fires. On the one hand it was expected to redeem its pledges to favour the consumer and lower the tariff, while on the other it was urged to respect the established system under which the industries of the country had been protected from hostile competition. The principle of reciprocal tariffs afforded a clue to a practical policy of ingenious compromise, which would enable the government to claim the virtual redemption of its pledges, while at the same time avoiding the unpopular course of apparently turning the other cheek to the United States.

By the new tariff policy of 1897, after a well considered readjustment of various specific articles, including the raising of duties in a few instances, a general reduction of the tariff by 12½ per cent, except on a few articles such as spirits and tobacco, was granted upon imports from all countries which admitted Canadian goods at equally low rates of duty. This seemingly sweeping reduction of the tariff, which constituted the redemption of the party pledges given while in opposition, was found on examination to apply to no considerable traffic outside that with Britain. In virtue

of special clauses in British commercial treaties with Germany and Belgium, goods from these countries were also included, pending a denunciation of the treaties, which soon took place. As promised in 1897, a further reduction of the tariff took place the following year, increasing the preference to 25 per cent. As the device had proved a very popular one, and its limited application was now well recognized, the wording of the preference was changed from the general to the particular, and the reduction specifically limited to the British Empire, although important sections, such as Australia, have not yet availed themselves of it.

Thus the Canadian preference on British imports was the outcome of no bargain with the British Government, or of no theories as to the advantages of inter-imperial trade. It expressed no sacrifices on the part of Canada for the benefit of the mother country. It was undertaken entirely in the interests of Canada, and as, under the conditions of the time the only advisable direction in which to carry out the repeated pledges of the Liberal Party. Their political opponents strongly criticized the preference on the ground of its being an infringement of the National Policy, and as certain to affect most injuriously the industries of the country. This position has never been given up and is still employed in appeals to the manufacturing interests. But, as soon as it was perceived that the preference was by no means about to accomplish the promised ruin of Canadian industries, the Conservatives shifted their centre of attack, and made a vigorous assault upon the Government for having gratuitously granted to the mother country a valuable concession without exacting any sacrifice in return.

This criticism, it will be observed, proceeded upon

■

two assumptions : First, that Canada did not undertake to lower the tariff upon British goods for her own benefit, but had made a distinct sacrifice of her normal interests for the express benefit of Britain ; Second, that Britain would have been willing to alter her whole fiscal system and tax her world supply of food and other raw materials, as a return for the Canadian concession on less than five per cent of her trade. Neither of these assumptions was true.

Nevertheless, under the influence of subsequent events, it has come to suit the tactics of the Liberal Party to accept the general interpretation of the preferential tariff, as a sacrifice made by Canada in favour of the mother country. It is represented, however, as a sacrifice prompted by pure generosity, and thus as contrasting with the harsh and ungenerous Conservative policy of an eye for an eye and a tooth for a tooth. Of course the Canadian favour might or might not be met by some equivalent concession on the part of Britain, but as far as Canada was concerned it was, *noblesse oblige*.

Tactically the Liberal position enjoys an immense advantage over that of its opponents, for, on the one hand, it proves the Liberal party to be much more loyal and at the same time magnanimous, than the Conservatives, towards the mother country. And this has a fine local flavour, since the Conservatives have always attempted to pose as the party of loyalty, par excellence, and have affected a more or less pharisaical attitude of suspicion towards the implied republican tendencies of the Liberals. On the other hand, while exacting nothing from Britain, the Liberal Government may gracefully decline to concede further preferences until Britain has returned the compliment. Moreover, with-

out the embarrassing necessity of breaking any bargain, or receding from any agreements, the government may modify or withdraw any part of the preference, wherever it has a tendency to unduly stimulate the importation of British goods. This was actually accomplished, last session, in the case of textiles.

And now as to the influence of the preferential tariff in stimulating imports from Britain or from the rest of the Empire. As the adoption of the preference happened to coincide with the beginning of the recent period of economic expansion throughout America, increasing prosperity accompanied its career and led to its being well received. But it by no means had the effect anticipated by either friends or foes. Except in the textile trade and some sections of the metal industries, the preferential treatment of British goods did not specially stimulate importation; and even when, in 1900, the preference was increased to $33\frac{1}{3}$ per cent., no appreciable difference was noted. Canadian imports all round have greatly increased during the preferential period, and British imports among the rest. But the significant fact is that, in spite of the preference, British imports have failed to increase at anything like the same ratio as those from foreign countries, as the following table will show. Taking the values of goods entered for home consumption from the leading countries of the world, and also the total imports, and comparing the year 1896, which was the year before the introduction of the preference, with the year 1903, we have the following results:

VALUE OF GOODS ENTERED FOR HOME CONSUMPTION
FROM

	1896.	1903.	Percentage of Increase.
Great Britain	\$ 32,979,742	\$ 58,896,901	78
United States	58,574,024	137,605,195	135
France	2,810,942	6,580,029	134
Germany	5,931,459	12,282,637	107
Spain	361,778	823,944	128
Portugal	46,596	129,192	178
Italy	230,917	541,785	135
Holland	299,852	1,270,540	324
Belgium	920,758	2,800,182	300
Newfoundland	551,412	1,197,581	117
West Indies	1,896,426	2,379,275	25
Switzerland	332,120	944,727	182
Total	\$110,587,480	\$233,790,516	111

That the preference has not arrested the downward tendency of the share of Britain and the rest of the Empire in Canada's imports is further shown when we compare the percentages by decades from 1883 to 1903:

PERCENTAGE OF CANADIAN IMPORTS OBTAINED FROM

	1883.	1893.	1903.
Great Britain	42.27	35.45	25.19
The British Empire	45.37	37.75	27.81
Foreign Countries	54.68	62.25	72.19

That the decline is still continuing is shown from the latest statistics. According to the British trade returns for the first nine months of this year, as compared with the first nine months of last year, we have a decline in the British exports to Canada and Newfoundland from \$44,108,215 to \$42,618,460, or a loss of nearly one and a half millions in the last nine months.

Taking the percentage of the total Canadian imports obtained from Great Britain and the United States respectively, in 1896 and 1903, and also the proportion of duty paid on British and American imports, we have the following:

	<u>Percentages of Total</u> <u>Canadian Imports</u>		<u>Percentages of Total Duty</u> <u>Collected</u>	
	<i>From G. B.</i>	<i>From U. S.</i>	<i>On Brit. Imps.</i>	<i>On Amer. Imps.</i>
1896 -----	29.82	52.91	36.39	38.42
1903 -----	25.19	58.86	26.52	46.0

From this we learn that whereas between 1896 and 1903 the percentage of British imports has declined from 29 to 25, the percentage of American imports has increased from 52 to 58. But on the 25 per cent. of British imports in 1903, notwithstanding the preference, 26 per cent. of the whole revenue was collected, while on the 58 per cent. of American imports only 46 per cent. of the total revenue was collected.

Now what these figures indicate, and what might be illustrated with much greater detail did time permit, is this: In the first place, we obtain from Great Britain mainly manufactured goods. Such raw materials as she sends us are, as a rule, not her own product. To considerably increase the importation of British manufactured goods, beyond what we have always taken because we needed them or could not produce them ourselves, would involve cutting in upon our own manufacturers, as in the case of the textile and metal industries, where under the preference the chief increase in British imports has been secured. Now our Canadian manufacturers strenuously object to sacrificing any part of the home market to competitors in Britain, and that they are quite capable of making their objections felt is evident from the partial repeal of the preference at the last session of the Canadian Parliament. Once assure them adequate protection, however, (and Americans will quite understand what that signifies,) and they have no serious objection to taking as much further protection against the world beyond the empire as the Canadian people may be willing to grant them, under the impres-

sion that thereby they are affording a preference on British imports. And if, in return for such a preference, the British public can be persuaded to place a duty upon those articles of food and raw material which we send them, when they come from beyond the Empire, the manufacturers will hold up both hands for it, since it may have a tendency to increase the number of settlers in Canada to become customers for their goods. In other words, if Britain will send us settlers and take their produce under a preference, our manufacturers will gladly supply the wants of the settlers for manufactured goods. It is only fair, however, to many of our more straightforward manufacturers to say that they regard such proposals in their proper light. Having too much respect, alike for themselves and their fellow citizens in Britain, they frankly declare that adequate protection to Canadian industry means the virtual abolition of any real preference to Britain.

But Mr. Chamberlain himself, before he started out on his present strategic detour with a view to outflanking the colonies, was fully alive to the significance of a preference which involved as a basis adequate protection for the colonial manufacturer. Thus, in his address to the colonial premiers at the last Imperial Conference in London, having the Canadian preference in his eye, he said, "But, so long as a preferential tariff, even a munificent preference, is still sufficiently protective to exclude us altogether, or nearly so, from your markets, it is no satisfaction to us that you have imposed even greater disability upon the same goods if they come from foreign markets, especially in the articles in which the foreigners are interested come in under more favourable conditions." And, with special reference to Canada,

"in spite of the preference which Canada has given us, her tariff has pressed and still presses, with the greatest severity upon her best customer and has favoured the foreigner, who is constantly doing his best to shut out her goods." Now this position, in the light of recent movements and discussions on the part of the Canadian manufacturers, is more valid to-day than it was two years ago.

But, say some, when cornered on this point, let Britain supply the goods now furnished to Canada by other countries, such as the United States, Germany, France, etc., and the preference will surely aid her in doing so. The reply to this is twofold. In the first place, if the present preference of one-third has not enabled Britain to even hold her own with foreign countries, she will have still less chance of doing so when the tariff is raised all round. For one of the chief objects of the proposed increase is to shut her out of those lines in which she now has an advantage in the Canadian market. In the second place, a detailed study of Canadian trade with Britain and her leading foreign competitors, especially the United States, reveals the true reason why neither the present preference nor any other that is at all within the range of practical politics, can greatly increase the proportion of British goods imported into Canada.

Nearly sixty per cent. of Canada's imports come from the United States, and when we examine them more closely, we find the great majority to be made up of such goods as coal, raw cotton, corn, wheat, raw tobacco, cattle and other live stock, petroleum, twine, carriages, machinery, settlers' effects, fish, farm implements, India rubber, coin and bullion, etc. More than one-half of

the American imports are free goods, many of them, in consequence, going to swell the volume of our exports to Britain. Of the dutiable goods a very large proportion consists of materials, implements and articles which are really not produced in Britain, or not in such forms as are at all suited to Canadian needs.

Canadians and Americans live under similar conditions on this continent, have practically the same fashions, habits, standards and methods of life and work. They use the same implements, machines, means of transportation, styles, materials and details of buildings, together with all their interior fittings. Hence, outside of those lines in which Britain already holds most of our trade, when we do not use Canadian, we desire American goods. When we examine our German, French and other imports, we find that a large proportion of them represent other phases of specialized trade, which cannot be shifted by preferential arrangement other than of the most drastic character. In the case of raw materials and goods of large bulk, where national, technical, aesthetic and other such qualities do not count, the trade can be shifted by preferential treatment, but these are either not furnished by Britain or she enjoys the trade already. Thus, so far as the preference has stimulated imports, it has been chiefly at the expense of the Canadian manufacturers who live by the tariff and suffer from its reduction. Unless, therefore, we sacrifice to Britain bodily those industries in which her goods are capable of supplying our markets, there is little else that we can put in her way by fiscal arrangement. This, then, is the chief explanation of the unfavourable statistics connected with the preference.

On the side of Canadian exports to Britain, we cer-

tainly have nothing of which to complain, for we already find in Britain by far the largest, most natural, and most accessible market which we have. At present she takes 58 per cent. of our total exports, and that without any sacrifice on her part, but simply because she finds it profitable to do so. This is a market capable of still further expansion if we continue to improve the quality of our exports, as indeed we have been doing, and this is surely the only safe basis upon which any country can hope to expand its trade. We have no need, therefore, to clamour that extra burdens shall be laid upon our fellow citizens in Britain for our benefit, especially when these burdens must affect, not the luxuries of the rich but the most elementary necessities of the life and industry of the masses.

Further, it is an entirely uncalled for reflection upon our country and our people to represent the one as capable of attracting settlers and capital only on the precarious basis of a bounty obtained from the British tax-payer; or the other as certain to repudiate the British connection and resign their national independence to another connection, unless the people of Britain bestir themselves to beguile us once more within the leading strings from which we have escaped. The fact is that our own national future, with its many problems and possibilities, is opening out before us with such attractiveness and with such responsibilities that, while it is our obvious policy to maintain good relations with all the world, it would be the height of folly to tie ourselves up under any hard and fast obligation, either commercial or political, for, in view of our constantly changing circumstances, these might prove most embarrassing within a very short time. A country in our

position must, in the light of its own experience and that of its neighbours, retain a perfectly flexible command of its policy and relationships. In that position we shall be in line with the very best traditions of Anglo-Saxon freedom. These also are the only terms upon which we shall be able to retain our respect, affection and loyalty towards the mother country, in whose traditions we are proud to share, but which we can only retain with true British self-respect when they appeal to the obligations of honour, not to the obligations of requisition.

